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THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA

HOUSING AND PROPERTY SCRUTINY COMMITTEE

13 MARCH 2014

REPORT BY THE DIRECTOR OF HOUSING

UPDATE ON INVESTING IN OUR HOUSING STOCK

This report provides Members of Scrutiny Committee with an update on the work the Housing Department and Kensington and Chelsea Tenant Management Organisation (KCTMO) have undertaken following the report by Savills in March 2013, which recommended options to increase investment in the Housing estate and improve the financial performance of the Housing Revenue Account (HRA).

FOR INFORMATION AND DISCUSSION

1.0 Introduction

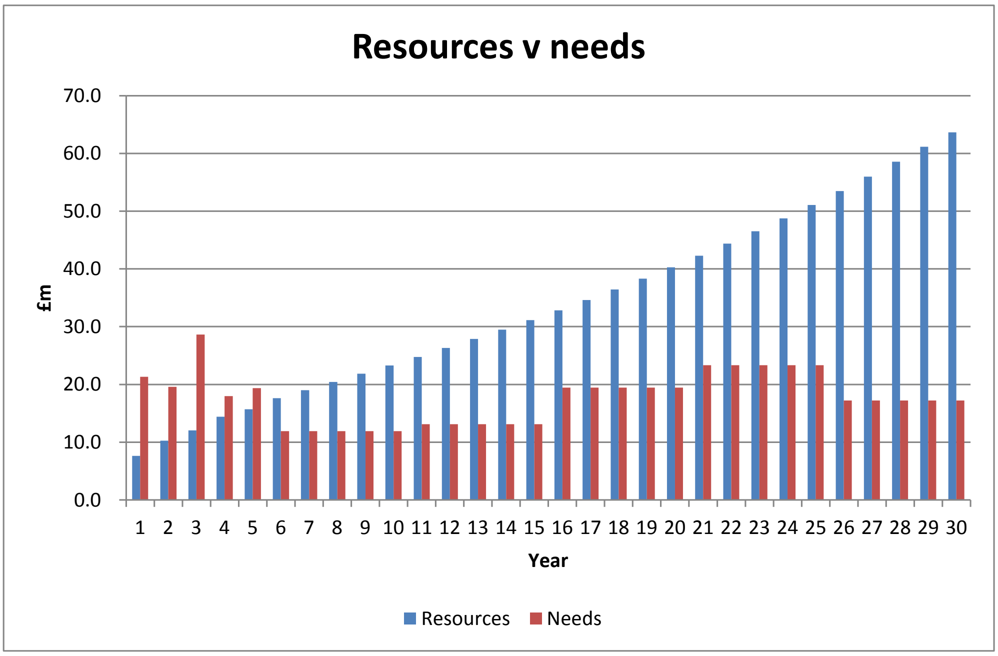
1.1 The Housing Department and Kensington and Chelsea Tenant Management Organisation have been working together to establish ways to invest in our housing stock. The purpose of this paper is update Scrutiny Committee on the progress made in looking at the various options, given the introduction of self financing and the ambitions to improve the quality of the current housing estate.

2.0 Background

2.1 The Self Financing regime for Council housing finance was introduced in April 2012. It provides more certainty over HRA resources, in particular rental income, and enables authorities to plan over the longer term. Councils are now fully responsible for their assets (as repair grants are no longer available) and the funding of investment, as rent from tenants is retained in the HRA (unlike the previous rent pooling and grant redistribution system). These significant changes have led to local authorities re-examining how they invest in and manage their housing portfolios.

2.2 Since November 2012, an assessment of the investment needs of the housing stock has been undertaken. The graph below shows investment needs (in red) against the resources within the HRA (in blue). Following self financing, there are predicted surpluses in the medium to long term with high investment needs in the short term (first five years). This is a similar pattern to that being experienced in many other authorities. This is due to works that have been deferred and also the significant nature of the works (such as lifts and heating not contained with the "Decent Homes" programme). However, based on a number of assumptions, Savills has estimated that to deliver this investment in the short term would require borrowing to increase to around £260m. This level of borrowing would exceed the debt cap by approximately £40m.

Graph 1: Investment needs of stock compared to HRA resources



Source: Savills

3.0 Asset Management Findings

3.1 Savills were commissioned to assess the performance of the housing assets, which were divided into asset groups and the thirty year net present value (rental income less repair costs) of each group was used to determine asset performance. Net present value (NPV) in this form is used in the report to help us understand the future cash flows for each asset group in terms of surpluses and deficits. A positive NPV will mean that the Council should invest in and retain the stock, whilst a negative NPV means that the Council should consider options to improve the NPV through change of use or dispose of the asset.

3.2 Key findings show that the average NPV per property is £15,129. This compares to an average NPV of £33,990[1] when compared to other providers of general needs rented stock. Based on the Savills recommendation that a property with a NPV below £0 is considered poor, a NPV between £0 and £10,000 is marginal, and above £10,000 is good, the headlines are:

i) 55% generate sufficient value to support investment requirements
ii) 21% are below average and require future review
ii) 19% are marginal and require short term review
iii) 5% or 362 properties do not generate sufficient surpluses to support their investment requirements, a total NPV of -£10.1m, thus impacting on our capacity to meet our overall investment requirements. They are in effect a "drain on" the HRA.

4.0 Options Available to Meet the Investment Gap

4.1 An options appraisal was carried out to identify ways to deliver the necessary investment in the housing stock and looked at options in and outside the HRA. In summary, the options were:

- Transferring the stock to a Registered Provider
- Rents Policy review to consider options to increase rental income thereby generating additional funds for capital investment
- Active asset management to deliver investment that benefits the HRA
- Use of underlying capital value through disposals of a small number of social housing units, which could include sale of units on the market, conversion of units to market rent/Affordable Rent/shared ownership
- Exploring the funding, delivery and ownership options to achieve some regeneration.

4.2 The option of transferring the stock was immediately dismissed, because it was demonstrated that sufficient investment can be achieved in our housing stock through a combination to a greater or lesser extent of the other options.

5.0 Next Steps

5.1 Following the delivery of these findings in March 2013 several projects were developed. These workstreams were:

[1] Higher NPVs attributable to higher average rents and lower average expenditure over 30 years – figures compiled from desk top benchmarking exercise across Registered providers, ALMOs and private rental companies.

- The Rent Policy:
  In order to generate additional funds for capital investment the Council has considered options for increasing rental income. A policy of moving to target rents over a 5 year period has been adopted which is expected to generate an additional £7m over 5 years, when compared to the current regime.

- Further refine the HRA Business Plan:
  The Business Plan sets out the priorities and investment requirements for the Council's housing stock over the next 5 years, and sets out how we plan to maintain the Council's housing stock to the highest standard within available resources; to set out opportunities to regenerate estates, provide additional units and to identify potential sources of funding over the medium term.

  The investment priorities, spending priorities and recommendations from the Business Plan are set out in Appendix 1.

- Development of an Asset Management Strategy, not on an annual basis but with short, medium and long term investment priorities.
  The Principles of Asset Management have been reported to Committee (Report A14 – 8 January 2014 Scrutiny Committee). The Strategy is currently being drafted using the following principles:

Principle	**Workstream**
Profiling Investment	• Capital Programme – maintaining and improving the quality • High value properties • Disposals • Voids requiring major works • Properties with low NPVs • Conversion of size of unit to meet housing need • Changing the tenure/ intermediate housing • Managing the commercial portfolio
Investing in the local standard	• Your health and safety • Keeping homes wind and weather tight • Inside your home • Improvements to communal areas • Improvements to your neighbourhood • Accessibility (investment is

	demand led).
Supporting Regeneration and Neighbourhoods	• Identifying the areas of socio-economic deprivation • Understanding the key factors of socio-economic deprivation and considering potential solutions from through property investment • Increasing supply of housing • Improving the quality of housing • More efficient use of space • Improving energy efficiency and reducing the carbon footprint

A report on the finalised strategy will come to Scrutiny Committee in July.

- Redevelopment:
  Work continues on identifying sites for redevelopment. This year KCTMO and RBKC Housing have delivered new Council homes, the first in many years at Greaves Tower and Holmefield House. The Hidden Homes programme will deliver more homes in the 2014/15 (at Grenfell Tower, Tavistock Crescent and Whistler Walk); procurement of architects to develop a planning application for new homes at Edenham Way has started and the options appraisal at Pembroke Road should report in the summer.

  A matrix has been developed to assess assets for redevelopment potential. This has been developed to include a financial performance appraisal, an assessment of quality, and how the assets contribute to meeting statutory housing need in the borough. It also identifies possible individual properties for disposal to the market to realise the capital receipt for investment, where there are high investment requirements to the property. A disposals policy is currently being drafted (see Appendix 2) and will be brought to Scrutiny Committee in the summer.

- Managing Repairs to improve performance:
  The KCTMO set up a separate company, TMO Repairs Direct, to deliver the repairs service.

- Commercial Portfolio & Parking Income:
  The income from unused and underused areas of the estate is being maximised through the provision of parking, storage and new homes or increased commercial use. The current level of income has already increased by 18% since 2011/12, with further large leases coming into effect in 2014/15, generating a potential c.£4.2m total HRA income pa.

- Employment initiatives:
  The Council's Housing and Worklessness Co-ordinator, in conjunction with the TMO, social housing providers and local support agencies, has been working to maximise opportunities for residents and maintain HRA income streams. Work has involved
    - developing a gateway referral model enabling the TMO and housing providers to refer resident directly to local support services resulting in them securing work and training, as well as welfare benefits and housing advice,
    - creating joint employment and training initiatives between social housing providers and local agencies including four TMO *Map out your Future road shows* engaging 300 residents, a computer and internet facility at Dalgarno, and commissioning by housing providers of local community services to deliver targeted support for residents,
    - an increase in sharing of jobs and training opportunities brokered by social housing providers with residents securing local jobs as a result,
    - over 300 job, training and related opportunities have been shared directly with residents through increased target engagement by social housing providers and the housing and worklessness project enabling an increase in take up of opportunities by residents

6.0 Summary

6.1 The 2013/14 programme following the Savills Report has now been completed, so areas are now mainstream work e.g. Asset Management and the new repairs company. For 2014/15 the following new projects have emerged:

- options for setting up a Council owned company;
- planning for 2014-19 capital investment of approximately £75m;
- looking at options for limited disposal of stock to provide funds to invest in our estate.

We will report on each of these to Scrutiny Committee as they are progressed.

7.0 Conclusion

7.1 The introduction of self-financing and the findings of the review we undertook into providing medium to long term options to fund investment into the estate have enabled the Council working with the KCTMO to plan for the future investment in and redevelopment of the estate for tenants now and those who we will be housing in 30 years.

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Background papers used in the preparation of this Report:

HRA Rent Report 2014-15 – A10
HRA Asset Management Principles – A11
HRA Business Plan – A14

http://kcapps/cmis/Meetings/tabid/73/ctl/ViewMeetingPublic/mid/410/Meeting/6566/Committee/1540/Default.aspx

Appendix 1

HRA Business Plan 2014-19 – Priorities and Recommendations

The priorities set out in the 2104-19 Business Plan are:

- Asset Management – framework for prioritising investment, identifying areas for income maximisation and non performing assets
- Achieving the Kensington and Chelsea Investment Standard – an aspirational but affordable local standard
- Older People's housing – develop accommodation that meets current and future users needs and expectations
- Greener Housing – better use of resources to produce savings to the Borough and residents
- Regeneration opportunities – make best use of the stock, build new homes and cater for the needs of residents

Spending priorities are categorised as:

- Need to spend – maintaining and improving the stock, neighbourhoods to the investment standard
- Capital programme priorities – a range of identified major works including lift, boiler and roof replacement, door entry systems and communal electrics etc.
- Revenue budgets – management fee, capital charges, planned and responsive maintenance.

The Plan also factors in other considerations such as resident engagement, compliance with procurement regulations, funding opportunities, governance and delivery.

The recommendations of the Business Plan 2014-19 were:

- To allocate capital resources of £10m to the 2014/15 capital programme.

- The borrowing headroom is not used to fund maintenance works, including the backlog but to fund regeneration or the development of affordable housing.

- Consideration is given to selling a small number of properties on the open market thereby releasing capital receipts which could be used to increase the Capital Programme to fund new and additional units.

- The focus is ensuring the statutory minimum standards of decency are maintained.

Appendix 2

Draft disposals criteria

Properties will be considered based on a range of criteria. It is not proposed that this is a linear process but decisions will be based on a combination of the factors

Reason	Criteria	Commentary
	Business reasons	
Uneconomic Assets	Where the Net present value for property is below £10,000	Negative and marginal assets (as defined in the asset management strategy) will be considered for disposal.
Requires significant investment	Cannot be brought up to investment standard for less than £X	Assessed at void inspection
Significant voids costs	Higher than average	Assessed at void inspection
Significant structural costs to the building	Higher than average for building type	Proactive assessment during tenancy
Management costs (e.g. repeat ASB/Noise)	Higher than average	Proactive assessment during tenancy
Leaseholder liabilities/ cashflow issues	Reduce leaseholder costs and time	Proactive assessment during tenancy
Rationalising for housing management	Not in vicinity of other stock	Single property away from other stock
	Strategic needs	
Size of the property	Bed size(studios and 1 beds)	Strategic need for larger properties therefore less likely to dispose
Accessibility	Is not in the Accessible Housing Register category	Strategic need for accessible properties
Percentage split between tenures	High percentage of leaseholders	Strategic aim to consolidate assets
	Financial assessment	
Capital value	Market value	Requirement of capital that is sufficient to contribute to the investment in housing or building of another unit

Rental value (market rent)		Does changing the rent level provide a positive NPV?
Rental value (intermediate rent)		Does changing the rent level provide a positive NPV?